September 29, 2003

INDIANA UTILITY REGULATORY COMMISSION

ELECTRICITY REPORT TO THE REGULATORY FLEXIBILITY COMMITTEE OF THE INDIANA GENERAL ASSEMBLY

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Purpose and Scope of the Report

This report is intended to satisfy the requirements of Ind. Code §8-1-2.5-9(b). The report outlines the status of the Indiana electric utility industry. The report reviews the activities of the electric industry in Indiana and provides an update of facts and developments since the Indiana Utility Regulatory Commission's ("IURC") 2002 Energy Report.

Executive Summary and Highlights

Electricity is something that many people take for granted. Today, electricity is a necessity, driving our economy and improving our quality of life. Further, as technology advances, the "quality" of electricity has become increasingly important. Sensitive electronic equipment in our homes and businesses require reliable electricity to function properly.

Five major investor-owned electric companies, 79 municipally-owned and 43 distribution cooperatives supply the electric needs of Hoosiers. The need for new generation coupled with efforts to meet federal environmental mandates is impacting the price that we pay for electricity. These dual circumstances have resulted in many of the notable proceedings that have occurred before the IURC in the past year. First, the recovery of capital spending on the installation of new pollution control equipment due to air quality regulations, which utilities must meet in the Summer of 2004, has resulted in recurrent cost recovery proceedings before the Commission. Second, certificate of need proceedings have taken place due to utility requests to build new power plants or purchase existing power plants to meet the increasing demands of their customers. In some cases, the result of the above two factors have been the impetus for Indiana utilities to file for increases in their rates. Finally, three of the investor-owned utilities have filed for new demand side management programs in order to reduce the demand for electricity through conservation.

A continued slow economy, coupled with a lack of investment capital, and uncertainty in the development of regional transmission organizations ("RTOs") and the wholesale market has curtailed the growth of generation plants constructed, owned and operated by independent power producers. The Commission has not received a new petition for the construction of merchant plant facilities since March 2001. The last two pending petitions have been dismissed by the Commission.

At the time of last year's Commission report to the Regulatory Flexibility Committee there were twelve merchant plant projects approved by the IURC but not yet operational. The Duke Energy Vigo project has since been cancelled by Duke Energy and the certificate of need was revoked by the Commission. Eight approved merchant plant projects remain to be completed or cancelled. Commission orders for these projects specify construction and operational deadlines that must be met if the project is to maintain its certificate of need.

The Federal Energy Regulatory Commission's Order ("FERC") 2000, issued in December 1999, required all public utilities that own, operate or control interstate transmission facilities to file with the FERC a proposal to join an RTO that would be operational by December 15, 2001. Order 2000 was an elaboration and clarification of earlier FERC initiatives to allow open, non-

discriminatory access to transmission and encourage competitive wholesale markets. Several Indiana electric utilities are currently in the Midwest Independent System Operator ("MISO" or "Midwest ISO") with another, NIPSCO, proposing to join the MISO as a member of the GridAmerica ITC. Indiana Michigan Power Company is seeking regulatory approval to join the PJM Interconnection, L.L.C. ("PJM"). Together these two RTOs interconnect transmission customers from North Dakota to Maryland and from Manitoba to Louisiana. The various proceedings involving RTO membership are summarized in this report.

The Commission's lack of authority over mergers involving Indiana utilities remains an extremely important issue. This topic has gained even more weight with possible Congressional repeal of the Public Utility Holding Company Act of 1935 ("PUHCA"). If PUHCA is repealed, with the intent of leaving the regulation of holding company mergers to the states – Indiana will be one of the few states left without specific statutory authority over holding company mergers.

Mergers are generally viewed with caution by federal and state regulatory agencies because the merged entity may be able to exercise increased market power resulting in noncompetitive prices, lack of product innovation and a decrease in the range and quality of service to the consumer. Mergers can also threaten state commerce by reducing job levels or draining employees from one state to another. Some mergers, however, result in substantial benefits to the shareholders, customers and employees of the merged companies. All proposed mergers or acquisitions should be objectively analyzed to identify the potential negative and positive outcomes. Indiana needs to participate in a review of the purchases, sales, and transfers of control of its public utilities. Specifically, any review should consider a transfer's effect on:

- Future investment in our communities;
- Employment opportunities and stability for Indiana's workforce
- Reliability and quality of the utility service; and
- Customer service.

Ratepayers in Indiana could benefit from the IURC having statutory authority to approve, disapprove, or set forth conditions on mergers and acquisitions by utilities that operate within the state. The IURC is in a better position than most federal agencies to analyze and evaluate the impacts of mergers involving its native utilities. Indiana should have the authority to review all aspects of a merger and the merging utilities should understand that regulatory action would be taken to ensure that ratepayers would not be in the position of being adversely affected by anticompetitive practices.

Finally, the Commission has continued to develop informal proceedings that will result in rulemakings in the areas of electric service quality and reliability and distributed generation and net metering.

Electric Industry Issues

No New Merchant Plant Applications

A continued slow economy, coupled with a lack of investment capital, and uncertainty regarding the development of regional transmission organizations and the wholesale market has curtailed the growth of generation plants constructed, owned and operated by independent power producers.

The Indiana Utility Regulatory Commission ("IURC" or "Commission") has not received a new petition for the construction of merchant plant facilities since March 2001. The last two pending petitions have been dismissed by the Commission. The first, Mt. Vernon Energy, Cause No. 41901, was dismissed by the request of the petitioner. The second, EnviroPower, Cause No. 41932, was dismissed by action of the Commission because of lack of progress by the petitioner to complete the proceeding. The petitioner did not object to the dismissal of the cause.

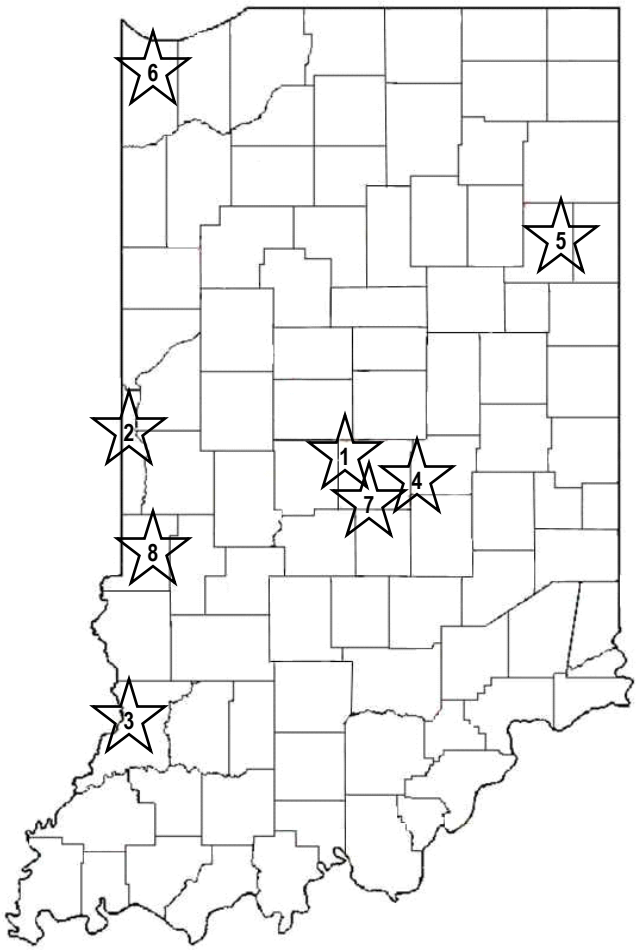
At the time of last year's Commission report to the Regulatory Flexibility Committee there were twelve merchant plant projects approved by the IURC but not yet operational. The Duke Energy Vigo project has since been cancelled by Duke Energy and the certificate of need was revoked by the Commission.

Eight approved merchant plant projects remain to be completed or cancelled. Commission orders for these projects specify construction and operational deadlines that must be met if the project is to maintain its certificate of need. Table 1 shows the remaining merchant plant projects in Indiana. Only PSEG Lawrenceburg is expected to become operational in 2003. Exhibit 1 is a map of all merchant plants operating in Indiana.

Table 1: Merchant Plants Pending or Under Construction

Proposed Facility	Proposed Capacity	Location	Estimated Completion Date	Cause Number
Cogentrix	800 MW	Lawrence Co.	May 2005	41566
PSEG Lawrenceburg	1150 MW	Dearborn Co.	Fall 2003	41757
Duke Energy Knox	640 MW	Knox Co.	Undetermined	41803
Tenaska	900 MW	Pike Co.	Undetermined	41823
Putnam Energy	500 MW	Putnam Co.	Undetermined	41856
PSEG Morristown	340 MW	Shelby Co.	Undetermined	41867
Hammond Energy	540 MW	Lake Co.	Undetermined	41900
Acadia Bay	630 MW	St. Joseph Co.	Suspended	41966

Exhibit 1: Merchant Plants Operating in Indiana



1 Indianapolis Power & Light Company ("IPL") Georgetown Station (80 MW) Most output from the plant is used by IPL customers. The facility began operation in May 2000. (Cause No. 41337)

2 Duke Vermillion (640 MW) The facility's eight turbines were operational in June 2000. (Cause No. 41388)

3 Wheatland Generating Facility (500 MW) Allegheny purchased this facility from Enron in late 2000. The facility's four turbines were operational in June 2000. (Cause No. 41411)

4 DTE Georgetown Station (160 MW) This plant is located on land owned by IPL. Two turbines were operational in June 2000. (Cause No. 41566)

5 DPL Generating Station (200 MW) This plant currently has four turbines, which became operational in June 2001. (Cause No. 41685)

6 Whiting Clean Energy (525 MW) This facility began operation in April 2002 and supplies steam to the adjacent Whiting Refinery. (Cause No. 41530)

7 IPL's Harding Street Station (151 MW) This facility began operation on May 31, 2002 and is connected to the IPL system. (Cause No. 42033)

8 Sugar Creek (533 MW) Phase 2 of this facility became operational in June 2003, thus increasing total capacity from 300 MW to 533 MW. The facility is interconnected to both the Cinergy and American Electric Power ("AEP") transmission systems. (Cause Nos. 41753 & 42015)

Regional Transmission Organizations ("RTOs") – Continuing Developments

The Federal Energy Regulatory Commission's ("FERC") Order 2000, issued in December 1999, required all public utilities that own, operate or control interstate transmission facilities to file with the FERC a proposal to join an RTO that would be operational by December 15, 2001. Order 2000 was an elaboration and clarification of earlier FERC initiatives to allow open, non-discriminatory access to transmission and encourage competitive wholesale markets. Several Indiana electric utilities are currently in the Midwest ISO ("MISO") with another, Northern Indiana Public Service Company ("NIPSCO"), proposing to join the MISO as a member of the GridAmerica ITC. Indiana Michigan Power Company ("I&M") is seeking regulatory approval to join the PJM Interconnection, L.L.C. ("PJM"). Together these two RTOs interconnect transmission customers from North Dakota to Maryland and from Manitoba to Louisiana.

Midwest ISO

The Midwest ISO is the first RTO to be approved by the FERC. The Midwest ISO is based in Carmel, Indiana, and is responsible for monitoring the electric transmission system that delivers power from generating plants to wholesale power transmitters. Most of Indiana's utilities have transferred operational control of their transmission to the Midwest ISO. [1]

The Midwest ISO began providing transmission service under its FERC tariff on February 1, 2002, thus improving the non-discriminatory open access to the transmission system and electric system reliability in the Midwest. Although operational, the Midwest ISO continues to accept new members and is working to expand and enhance the scope of its system.

In March 2003, the Midwest ISO and the Southwest Power Pool[2] ("SPP") announced they had mutually agreed to terminate the consolidation of the organizations. The companies began discussing a consolidation in August 2001 and definitive documents were executed in March 2002. Both organizations have not precluded a future consolidation.

PJM

The PJM is a limited liability company formed on March 31, 1997, and was the successor of the PJM power pool. The organization is responsible for the operation and control of the bulk electric power system throughout all or portions of Delaware, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, West Virginia and the District of Columbia. In 1998, PJM became the

[1] These utilities include: PSI, IPL, SIGECO, Wabash, Hoosier Energy and IMPA. NIPSCO has now committed to join MISO through the GridAmerica ITC, but has not transferred functional control. The proceeding is pending before the Commission in Cause No. 42349.

[2] The SPP is comprised of 53 members in the southwest part of the U.S. including all or parts of Texas, Oklahoma, New Mexico, Arkansas, Kansas and Louisiana.

first fully functioning Independent System Operator ("ISO") and is the country's first fully functioning regional transmission organization.

Both Commonwealth Edison in Illinois and AEP, with electric utility operations in Indiana, Kentucky, Ohio, Tennessee, Virginia and West Virginia, are in the process of joining the PJM.

The Joint and Common Wholesale Energy Market

On January 21, 2002, the Midwest ISO, PJM and SPP announced a plan to develop a single wholesale market for electricity producers and consumers in all or parts of 26 states, the District of Columbia and the Canadian province of Manitoba. The three organizations intend to move toward implementation of a single, non-discriminatory wholesale power market covering their collective regions, which would meet the needs of all customers and stakeholders. Critical design features will include maintenance and improvement of system reliability, clarity of market rules and operations, price transparency, one-stop shopping for transmission service and energy products and open network architecture that provides for growth, redundancy, security and flexibility for the future.

The Midwest Market Initiative

In December 2002, the Midwest ISO announced the Midwest Market Initiative ("MMI"). The MMI refers to the preparation and implementation of the Midwest ISO wholesale energy market in the Midwest with a target launch date of December 2003. The MMI involves the formation of real time and day ahead markets for trading electricity based on hourly locational marginal pricing.

On April 18, 2003, the MISO announced the start-up date for the MMI would be extended four months, allowing market participants more time to prepare for the opening of the energy markets. The new scheduled launch date is March 31, 2004, with market trials scheduled to run from November 1, 2003 through February 2004.

Further Actions to Develop a Multi-Regional Approach to Transmission

On April 16, 2003, the MISO, PJM and the Tennessee Valley Authority ("TVA")[3] announced plans to pursue the development of a multi-regional approach to improve transmission, operations and related transactions. The executed memorandum of understanding initiates a process to facilitate a transparent electricity market covering the movement of generation supply throughout the area comprised of the MISO, PJM and TVA.

[3] TVA is a wholly-owned U.S. government corporation and operates the nation's largest public power system in seven southeastern states.

Organization of Midwest ISO States ("OMS")

The state utility commissions in the MISO footprint initiated the formation of the country's first so-called regional state committee[4] that will act as an adviser on some MISO functions and attempt to plan transmission investments on a regional, rather than state-specific basis. In May 2003 the OMS filed its articles of incorporation in Indiana.

The OMS is in the formative stages and is being funded by the MISO on a voluntary basis with revenues received through its transmission tariff.

It is expected that the OMS will take the lead on planning and resource adequacy issues involving the MISO while also acting as a resource for the states as they deal with development of the regional power market. Each state will retain its existing authorities, but it is hoped that an increased understanding of regional issues will develop and lead to better decisions especially regarding transmission expansion.

FERC Actions to Facilitate Competitive Wholesale Power Markets

Standard Market Design

On July 31, 2002, the FERC published its notice of proposed rulemaking ("NOPR") on Standard Market Design ("SMD"). The FERC found that the absence of a single set of rules governing the wholesale electric industry is preventing wholesale power markets from realizing their full potential. In the NOPR, the FERC proposed a series of changes to bring to fruition the kinds of markets envisioned, but not yet realized, in the Commission Orders Nos. 888 and 2000.

The FERC believes the SMD is a framework in which to create genuine wholesale competition, efficient transmission systems, the right pricing signals for investment in transmission, generation facilities and demand reduction, and more customer options. Market monitoring and market power mitigation proposals are also critical parts of the proposals for standardized power market rules. The FERC proposed to work closely with the states on all transmission services to retail customers to achieve non-discriminatory transmission services over the entire interstate grid. The proposal would require transmission service providers to be independent of market participants and to establish short-term electricity markets to complement bilateral contracts.

To guard against over-reliance on spot markets, the FERC proposed a resource adequacy requirement to ensure that future regional needs are addressed through self-supply or bilateral contracts. To further encourage transmission investments, the FERC proposed to require industry

[4] Member states and provinces of the OMS include: Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, Pennsylvania, South Dakota, Wisconsin, and Manitoba, Canada.

stakeholders to participate in a regional process administered by an independent transmission provider to identify the most efficient and effective means to maintain reliability and eliminate critical transmission constraints. Efficient market design can eliminate opportunities for market manipulation, however market monitoring at all times, and market power mitigation when needed, are still critical aspects of this initiative.

FERC White Paper

On April 28, 2003, the FERC, as a part of the SMD NOPR process, issued a White Paper emphasizing its commitment to competitive wholesale power markets. The White Paper said the FERC will concentrate its attention on the formation of regional transmission organizations and on ensuring that all independent transmission organizations have sound wholesale market rules while allowing for regional differences and different implementation schedules.

The White Paper was issued in response to numerous comments received on the SMD NOPR and was designed to advance the competitive wholesale markets envisioned by two earlier FERC orders – Order Nos. 888 and 2000. Order No. 888, issued in 1996, opened up the nation's transmission grid through open access transmission tariffs. Order 2000, issued in 1999, called for the voluntary creation of regional transmission organizations in order to bring about increased efficiency through improved grid management and increased customer access to competitive wholesale power supplies.

The White Paper proposed a significant role be played by regional authorities in setting up regional power markets. The paper stressed the FERC will rely on regional state committees to address significant market design features for their regions while ensuring that "seams" issues between regions are minimized.

The White Paper also stated that a final rule for the SMD might be issued sometime later this year.

The IURC Needs Authority over Mergers and Acquisitions

Ind. Code § 8-1-2-83, the code section providing for authority over the sale of a public utility's 'franchise, works or system', has seen few changes since its enactment in 1913. It currently provides that, "No public utility, as defined in section 1 of this chapter, shall sell, assign, transfer, lease, or encumber its franchise, works, or system to any other person, partnership, limited liability company, or corporation, or contract for the operation of any part of its works or system by any other person, partnership, limited liability company, or corporation, without the approval of the commission after hearing." That language served the IURC well for years. However, the manner in which companies are bought and sold has changed since the enactment of this statute – today, most transactions are completed through transfers of stock.

In 1999, the Indiana Supreme Court ruled that the IURC did not have authority under its statute to review mergers and acquisitions completed through stock transfers. The IURC had asserted jurisdiction over the purchase of Ameritech by SBC and the company had appealed that decision to the courts. The IURC had asserted jurisdiction over the transaction by citing the above mentioned code section and determined that "a transaction in which at least 50% of a public utility's voting capital stock is sold, transferred, etc. necessarily constitutes the sale, transfer, etc. of that public utility's franchise, works, or system."

In Justice Boehm's majority opinion on the matter he wrote, "The Commission and others make several compelling policy arguments, all of which boil down to the need for pre-merger investigation and approval by the Commission to protect the consumers of Indiana." He concluded the Court's opinion by stating that, "It may well be that it is more efficient or effective in protecting the interests of the citizens of our state for the Commission to have power to disapprove a shift in control of a utility, rather than simply power to regulate the utility after its ownership is transferred. However, those arguments are for the General Assembly, not this Court or the Commission." Chief Justice Shepard dissented in that case saying, "The executive department has decided to stand its ground in the field of telecommunications. I regret that the judiciary has let it slip away."

Since the 1999 decision, the IURC has sought to amend its statutory authority to include jurisdiction over such transactions. Each session, the IURC has set forth legislative proposals to close this gap in its authority – and each session, has been disappointed. During this time, the Commission has lacked jurisdiction over seven large mergers and acquisitions occurring within Indiana, including the SBC-Ameritech and IPL-AES mergers. The Commission has had to address both service quality and financial issues involving IPL since its acquisition by AES. Other recent mergers that have not been reviewed from the uniquely Indiana perspectives are:

- The merger of Bell Atlantic and GTE (the formation of Verizon)
- The merger of Southern Indiana Gas and Electric Company ("SIGECO") and Indiana Gas (the formation of Vectren)
- NiSource's purchase of Columbia Energy
- NiSource's purchase of Bay State Gas
- German energy company RWE's purchase of Indiana American Water Company

Mergers are generally viewed with caution by federal and state regulatory agencies because the merged entity may be able to exercise increased market power resulting in noncompetitive prices, lack of product innovation and a decrease in the range and quality of service to the consumer. Mergers can also threaten state commerce by reducing job levels or draining employees from one state to another. Some mergers, however, result in substantial benefits to the shareholders, customers and employees of the merged companies. All proposed mergers or

acquisitions should be objectively analyzed to identify the potential negative and positive outcomes. Indiana needs to participate in a review of the purchases, sales, and transfers of control of its public utilities. Specifically, any review should consider a transfer's effect on:

- Future investment in our communities;
- Employment opportunities and stability for Indiana's workforce;
- Reliability and quality of the utility service; and
- Customer service.

The Indiana Commission, unlike other state commissions, has been unable to negotiate benefits for Indiana customers in return for approving the mergers. In Illinois, customers of Ameritech Illinois each received checks for $50 from SBC after the merger, representing the savings of the merger to the company. Indiana customers received nothing. In the purchase of affiliated water companies in Kentucky and Indiana, the Kentucky Commission, with broad merger authority, was able to obtain a rate decrease for Kentucky customers while the IURC, without broad merger authority, did not obtain a rate decrease, but only succeeded in obtaining new reporting requirements, such as that the company's annual reports must be filed in English for the next five years.

An additional concern is Congress' consideration of the repeal of the Public Utility Holding Company Act of 1935 ("PUHCA") in the Energy Policy Act of 2003. A provision repealing PUHCA is included in S.14 currently being considered by a Congressional Conference Committee. If PUHCA is repealed, with the intent of leaving the regulation of holding company mergers to the states – Indiana will be one of the few states left in the cold because of its lack of specific statutory authority over mergers. In fact, all of Indiana's neighboring states do have broad merger authority that enables them to protect utility ratepayers.

The Edison Electric Institute, a trade organization of investor-owned utilities, published an article in March of 2003 in favor of repealing PUHCA[5]. In it, the group argued "under traditional regulation, FERC and state commissions will regulate electric rates, ensuring that electric consumers do not pay for any of the costs not necessary for providing energy services. FERC and state commissions also will have the authority to prevent any cross-subsidies between a utility and its affiliates. Utility mergers and acquisitions will still require state commission approvals and review by the Department of Justice and the Federal Trade Commission under the antitrust laws (emphasis added)." The repeal of PUHCA is being promoted as eliminating a redundancy because most states have authority to review mergers and acquisitions. This redundancy is only true if a state has the authority to review mergers and acquisitions involving

[5] "Remove Federal Barriers to Competition: Repeal the Public Holding Company Act", March 2003, Edison Electric Institute.

holding companies and stock transfers. Unfortunately, due to the 1999 Indiana Supreme Court ruling, Indiana is now one of the few states without broad merger authority.

While antitrust authorities, such as the Federal Trade Commission or Department of Justice, at the federal level have certain authorities over mergers, they have a national perspective and generally do not consider state specific concerns. The Attorney General on the state level might also have some authorities regarding the policing of mergers and acquisitions. The IURC believes it needs the definitive authority to determine if a merger or acquisition is in the public interest. The IURC is a designated expert in utility operations and pricing of services and thus can determine more accurately the detrimental effects of any merger or acquisition. Furthermore, state commissions are charged with ensuring the public interest is served, which is broader than traditional antitrust theory. For example, antitrust authorities are rarely worried about the role that merger savings have on the overall rates of the utility.

Ratepayers in Indiana could benefit from the IURC having statutory authority to approve, disapprove, or set forth conditions on mergers and acquisitions by utilities that operate within the state. The IURC is in a better position than most Federal agencies to analyze and evaluate the impacts of mergers involving its native utilities. Indiana should have the authority to review all aspects of a merger and the merging utilities should understand that regulatory action would be taken to ensure that ratepayers would not be in the position of being adversely affected by anticompetitive practices.

Another consequence of the repeal of the PUHCA is the potential for affiliate abuse including cross-subsidization of competitive ventures by the customers of regulated utilities. Indiana and other states will find that reviewing the transactions among regulated and non-regulated affiliates of holding companies will be, at a minimum, a daunting task.

Electric Service Quality and Reliability Project

As an outgrowth of the reliability proceeding, docketed as Cause No. 41736, that was conducted throughout the summer of 2000; the Commission initiated an informal workshop process to further explore the issues of electric service quality and reliability. The process began with a comprehensive data request being sent to all electric utilities under IURC jurisdiction on November 2, 2002. The data request was also sent to other potentially interested parties including the Office of Utility Consumer Counselor (“OUCC”), the Citizens Action Coalition (“CAC”), representatives of industrial consumers and labor unions for their review and input.

The data request responses were reviewed by Commission staff and a series of five workshops were developed based on the responses. The Commission hoped that an informal workshop atmosphere would allow an exchange of ideas which would improve the development of any

formal rulemaking that may follow the process. The proposed schedule and agendas for the workshops were as follows:

- Workshop 1: Reliability Statistics and Outage Reporting – March 4, 2003.
- Workshop 2: Safety – May 4, 2003
- Workshop 3: Customer Service – July 21, 2003
- Workshop 4: Reliability Part 2 – September 16, 2003
- Workshop 5: Wrap-up and Future Actions – January 2004.

To date four workshops have been held. The Commission has been generally pleased with the interaction between the utilities and other participants, including representatives from the OUCC, CAC and unions. The Commission has also been happy with the participation of the smaller Rural Electric Membership Cooperatives ("REMC") and municipal utilities. The Commission believes the input of the smaller utilities is important to get a complete view of the reliability and service quality of the electric utility industry in Indiana.

In future workshops a working group of utilities will present recommendations on reporting requirements for reliability measures. The Commission will also revisit an outage reporting process before initiating a formal rulemaking on that issue.

Net Metering Project

Following a round of comments and a workshop on distributed resources issued in 2002, the Commission embarked on an effort to encourage each investor-owned utility to voluntarily file a net metering tariff. The result of these efforts has been that IPL expanded its existing net metering tariff to now include wind and hydroelectric systems as well as solar photovoltaic systems. PSI Energy also expanded its existing net metering tariff to include wind and low-head hydro systems as well as photovoltaic systems. SIGECO filed a new net metering tariff that includes photovoltaic, wind, hydroelectric, and fuel cell generation systems. This tariff was approved under the Commission's thirty-day filing process on June 18, 2003. NIPSCO and I&M have not filed net metering tariffs with the Commission.

The Commission staff has been working on a new net metering rule for Indiana, and distributed the first draft of the rule to interested parties for comments in June 2003. The Commission has received comments on this draft of the net metering rule and will proceed to develop the rule in a formal rulemaking process.

Notable Electric Utility Proceedings

Commission Investigations

Northern Indiana Public Service Company Investigation - Cause No. 41746

On January 27, 2000, the CAC and a group of ratepayers filed a complaint in Cause No. 41651 alleging that the rates and charges of NIPSCO were unreasonable and that NIPSCO had received earnings that exceeded its allowable rate of return. On May 17, 2000, the IURC issued a docket entry in that cause initiating a separate investigation into the reasonableness of NIPSCO's rates, docketed as Cause No. 41746. Evidentiary hearings and settlement negotiations were held throughout the next twenty-four months.

On June 20, 2002, NIPSCO, the OUCC and the NIPSCO Industrial Group submitted a Joint Settlement Agreement resolving all issues in Cause No. 41746. The CAC did not join in the settlement. Some of the main provisions of the Settlement Agreement included:

- **Revenue credit**: Residential, commercial and industrial customers who are not on special contracts receive a monthly revenue credit to their bills. The monthly credit is about 6% of the customer's bill and fluctuates from month to month. The cumulative dollar amount credited to NIPSCO customers is limited to $55 million per year for the term of the Settlement, which is 49 months and continuing until NIPSCO has a change in base rates.
- **Economic Development Rates**: NIPSCO agreed to file new economic development rates for new, or expansion of, existing load. These rates are not applicable to residential or small commercial customers.
- **Fees, Costs and Expenses:** NIPSCO put $1.8 million in escrow to allow signatories to the agreement to petition the IURC for payment of litigation expenses related to this proceeding. The $1.8 million was deducted from the first year's $55 million revenue credit amount. Any unclaimed portion of this money will be added back to the revenue credit for future refund to the customers.
- **Electric Service Reliability Incentive Ratemaking Mechanism**: NIPSCO agreed to work with the OUCC and the Commission to develop an incentive ratemaking mechanism. If the parties could not agree upon an incentive mechanism, NIPSCO agreed to file its own incentive mechanism for Commission review and approval.
- **Regional Transmission Organization:** NIPSCO agreed to join a regional transmission organization.

On September 23, 2002, the Commission issued an order in Cause 41746. The order accepted the settlement presented by NIPSCO, OUCC and the industrial intervenors with two modifications.

First, NIPSCO would be allowed to recover only a portion of its attorney and consultant fees associated with the proceeding. Second, the Commission provided for a 60/40 sharing of current period over earnings, split NIPSCO/customers, respectively. On October 9, 2002, the Settling Parties filed notice, accepting the Commission's changes to the settlement agreement.

On October 15, 2002, the Citizens Action Coalition filed notice that it was appealing the Commission's order with the Indiana Court of Appeals. NIPSCO is implementing the provisions of the Settlement Agreement even though this appeal is still pending.

On October 15, 2002, a motion for reconsideration of the order was filed by a group of fourteen individual intervenors. The Commission denied the motion for reconsideration on October 23, 2002.

Since the Order on Reconsideration was issued in October 2002, NIPSCO has moved forward with implementing the provisions of the Settlement Agreement.

- Revenue credits are now being received by customers;
- New economic development rates have been filed and approved by the Commission;
- A subdocket was set in Cause No. 41746 to allow for the NIPSCO industrial intervenor and the OUCC to collect legal fees, as specified in the Settlement. The OUCC did not petition for recovery of its legal fees. This proceeding has been completed and an order was issued on July 2, 2003. A Notice of Appeal was filed on August 1, 2003, by the intervenors in this case.
- NIPSCO, the OUCC and Commission Staff could not come to an agreement on a reliability incentive mechanism. NIPSCO filed its own mechanism on June 11, 2003 (Cause No. 42456). No schedule has been set in this proceeding at this time.
- NIPSCO has filed with the FERC to join the MISO (through the Grid America ITC) and, upon order of a Commission investigation, docketed as Cause No. 42349; NIPSCO's membership in the MISO is being evaluated.

Rate Cases

PSI Energy – Cause No. 42359

On December 30, 2002, PSI Energy, Inc. petitioned the IURC for authority to increase its rates and charges for electric service, docketed as Cause No. 42359. The test year to be used in this proceeding is the twelve months ended September 30, 2002. An evidentiary hearing on PSI's case-in-chief was held June 9, 2003 through June 17, 2003. The evidentiary hearing shall resume November 3, 2003, to allow cross-examination of updates to Petitioner's case-in-chief

and to allow the OUCC, Intervenors, and Commission Testimonial Staff to present their respective cases. Field hearings to hear comments from the public will be scheduled to take place in early fall, 2003.

PSI is requesting an increase in its annual retail electric utility revenue requirements of approximately $200 million representing an average aggregate increase of approximately 15%. PSI has added over $2 billion of electric plant since their last base rate case, Cause No. 40003 (Sept. 27, 1996). PSI is requesting a rate of return of 7.92%. This return reflects PSI's cost of debt of 6.84%, and its estimated cost of equity of 11.5%. The requested rate increase would be approximately $10.45 per month for a typical residential customer compared to average rates in effect at the end of 2002. A final decision in this case has not been reached.

Wabash Valley Power Association – Cause No. 42458

On June 11, 2003, Wabash Valley Power Authority ("WVPA") filed a petition for authority to adjust and increase its rates and charges, and its rules, regulations and depreciation schedules for electric service. A preliminary hearing in this cause was held on July 21, 2003. Evidentiary hearings in this cause are scheduled to take place in March, 2004.

Demand Side Management Activities

Southern Indiana Gas and Electric Company – Cause No. 42418

On April 15, 2003, Southern Indiana Gas and Electric Company filed a petition for approval of a proposed Demand Side Management ("DSM") program. The program was designed through a cooperative process with the OUCC and the CAC, which resulted in a Stipulation and Settlement Agreement among the parties. The proposed program is budgeted at $3 million per year for three years, and would involve measures aimed at electricity and gas use (with $2.5 million for electric and $0.5 million for gas). The proposal is different from previous Indiana utility DSM programs in that a Third Party Administrator would be chosen to design and implement the DSM measures and programs. An evidentiary hearing was held on June 26, 2003. At this time, the Commission has not issued a final order.

Direct Load Control Programs

Direct Load Control ("DLC") programs provide utilities with a valuable tool in shaving load during peak use periods. Utility DLC programs are generally associated with large cyclic loads such as air conditioning compressors. The utility installs a remote controllable switch on the air conditioner compressor electrical feed. The switch allows the utility to alter the cycling of the compressor. When pre-determined conditions are met the utility can reduce their system load by remotely activating the switch. Air conditioning compressor units limited to 50% cycling time yield an approximate 1 kW peak load reduction. The utility provides incentives to customers

who participate in the program. The incentives vary by utility, but in general, are designed to reward participants for their assistance in delaying the utilities' need to build additional peaking units.

SIGECO and the Wabash Valley Power Authority have had DLC programs in place for several years. SIGECO credits their residential and commercial DLC program with demand savings of 42.5 MW annually. WVPA estimates their DLC program provides 50 MW of demand savings through member REMCs. PSI and IPL have recently added DLC programs to their suite of demand side management programs. These new programs are discussed further below.

IPL requested authorization for their residential direct load control program in Cause No. 42069, filed August 20, 2001. IPL's program allows for the cycling of residential air conditioners at times of summer peak load. IPL will offer a $5 per customer per month credit for the four summer months. IPL is targeting 3000 switch installations per year and projects a load reduction of 10 MW by 2005. An order approving IPL's DLC Program was issued May 1, 2002.

PSI requested authorization for their residential direct load control program in Cause No. 42325, filed November 7, 2002. PSI developed the program for the cycling of both single and multi-family residential customers' air conditioning during the summer months. Customers can select from two control options based on the load reduction they will agree to supply. Customers will receive a sign-up payment of $25 for the 1.0kW reduction option, or $35 for the 1.5kW reduction option. Additionally, PSI credits participants when the DLC program is called upon. A variable daily event incentive for any given day is based on the reduction amount agreed to by the customer, the number of hours that the air conditioning system is cycled on any given day and the real time value of electric energy during the control event. The real time value of electric energy will be set annually based upon assessment of PSI's avoided costs. PSI projects a load reduction of 45 MW by 2007. An order approving PSI's DLC Program was issued April 16, 2003.

Environmental Compliance Proceedings

In the fall of 1998, the U.S. Environmental Protection Agency ("EPA") finalized a rule known as the NO_X SIP Call[6]. On November 8, 2001, the EPA approved the Indiana Department of Environmental Management's ("IDEM") NO_X rule, making the rule federally enforceable under the Clean Air Act. NO_X emissions reductions required by the IDEM NO_X SIP Call are to be achieved by May 31, 2004. To achieve the required levels of NO_X reductions mandated by the

[6] On October 27, 1998, the U.S. EPA promulgated final federal rules requiring 22 states and the District of Columbia to submit state implementation plan ("SIP") revisions to reduce the regional transport of ozone. The federal rule focused on reducing NOx emissions in the affected states.

NO_X SIP Call, Indiana utilities must rely on capital-intensive retrofits to their generating facilities.

Senate Enrolled Bill 29, effective July 1, 2002, encourages utilities to pursue advanced clean coal technologies that reduce regulated air emissions from electric generating plants. The bill also allows the IURC to provide incentives for certain clean coal and energy projects through the authorization of up to three (3) additional percentage points on the return on shareholder equity that a utility would otherwise be allowed to earn on such projects. To date, no utility has requested this additional return.

The following is a brief outline of petitions filed with the IURC by Indiana electric utilities for approval of various NO_X SIP Call compliance strategies and cost recoveries. Included is a current best estimate of the capital cost of those compliance measures.

Indianapolis Power and Light

IPL filed Cause No. 42170 on February 1, 2002. IPL proposes to install Selective Catalytic Reduction ("SCR") systems at its Petersburg Unit 2, Petersburg Unit 3, and its Harding Street Station Unit 7. By using the emission allowance market for approximately 500 tons of allowances, IPL expects to avoid the installation of a fourth SCR at its Petersburg Unit 1. IPL also plans the deployment of three Selective Non Catalytic Reduction ("SNCR") projects and other technologies at additional generating units. IPL estimates approximate capital cost at $260 million. An order approving the plan was issued on November 14, 2002.

Northern Indiana Public Service Company

NIPSCO filed Cause No. 42150 on January 4, 2002. NIPSCO proposes to install SCR systems at its Michigan City Unit 12, Bailly Units 7 and 8, and Schahfer Unit 14. In addition, NIPSCO will install advanced low NO_X burners with separated over-fired air systems at Schahfer Units 17 and 18. NIPSCO anticipates approximate cost at $235 million. An order approving the plan was issued November 26, 2002.

NIPSCO filed Cause No. 42150-ECR1 on February 6, 2003. NIPSCO requested authorization to begin earning a return on their investment of $58,359,904 incurred through December 31, 2002. An order approving the rate adjustment was issued on April 30, 2003.

PSI Energy

PSI filed Cause No. 41744 on May 17, 2001. This filing was for Phase I of PSI's compliance plan. Phase I consisted of NO_X controls for PSI's Gallagher and Gibson Stations. Specifically, that plan consisted of SCRs and Boiler Optimization at Gibson Units 1, 2, and 3; SCRs at Gibson Units 4 and 5; and SNCRs and Boiler Optimization at Gallagher Units 1, 2, 3, and 4. (PSI now

proposes to test new design Low NO_X Burners at Gallagher rather than immediately install a SNCR system at that Station.) An order approving Phase I was issued on February 14, 2002.

PSI filed Phase II of its environmental compliance plan on August 14, 2001. Phase II, docketed as Cause No. 41744-S1, includes replacing the SNCRs with Low NO_X Burners at its Gallagher Station. Other Phase II projects consist of SNCRs at Wabash River Units 2 through 6; a retrofit SCR at Cayuga Unit 1, and Boiler Optimization for virtually all of the Company's coal-fired units, including optimization systems for Gibson Units 4 and 5. PSI also considers the SCR systems added as part of the repowering project at its Noblesville Station as part of its compliance plan. PSI anticipates the cost of its environmental compliance plan to total in excess of $700 million. An order approving Phase II was issued on July 3, 2002.

PSI filed Cause No. 42061-S1 on September 4, 2002. PSI updated the investment value upon which it seeks to earn a return, $245,063,000, to include costs incurred through June 30, 2002. An order approving the rate adjustment was issued on April 30, 2003.

PSI filed Cause No. 42061-ECR2 on April 2, 2003. PSI is petitioning the Commission to conduct an annual review of the PSI Compliance Plan. The plan includes updates to the content, cost, and timing of the previously approved plans.

Southern Indiana Gas and Electric Co.

SIGECO filed Cause No. 41864 on November 13, 2000. SIGECO was the first utility to petition for approval of its compliance plan. An order was issued on August 29, 2001. SIGECO has approval to add four SCRs at its F.B. Culley Unit 3, Warrick Unit 4 and A.B. Brown Units 1 and 2. In Cause No. 41864, expenditure of $198 million received approval.

SIGECO filed Cause No. 42118 on October 31, 2001. SIGECO requested authorization to begin earning a return on investment of $14,393,922 incurred through October 31, 2001. An order approving the rate adjustment was issued on February 2, 2002.

SIGECO filed Cause No. 42248 on June 5, 2002. Phase I of the proceeding updated the investment value upon which SIGECO may earn a return, $37,848,680, to include costs incurred through May 31, 2002. An order approving the rate adjustment was issued October 23, 2002. Phase II of the proceeding updated the cost estimate of their compliance plan to $243,561,000. Phase II was approved by order on January 2, 2003.

SIGECO filed Cause No. 42340 on December 5, 2002. SIGECO updated the investment value upon which it seeks to earn a return, $65,655,417, to include costs incurred through November 30, 2002. An order approving the rate adjustment was issued on April 30, 2003.

Wabash Valley Power Association

WVPA filed Cause No. 42189 on February 26, 2002. WVPA owns a 25% share of PSI's Gibson Unit 5. Accordingly, WVPA will pay a proportionate share of the cost of the SCR and other modifications PSI will make at Gibson Unit 5. An order approving PSI's addition of the SCR at Gibson Unit 5 was issued February 14, 2002 in PSI's Phase I compliance plan filing. WVPA anticipates its share of the cost to be $33 million. An order was issued in Cause No. 42189 on August 7, 2002.

Indiana Municipal Power Agency ("IMPA")

IMPA also owns a 25% share of PSI's Gibson Unit 5. In addition, IMPA owns a share of Louisville Gas and Electric's Trimble Co. plant, in Kentucky. IMPA estimates its total financial requirement of the SCR Project for both Gibson Unit 5 and Trimble County Unit 1 is $40 million.

On August 15, 2001, IMPA filed Cause No. 42063, which requested IURC approval of its participation in the Gibson Unit 5 and Trimble County Unit 1 environmental compliance projects. An order approving this petition was issued on February 6, 2002.

Hoosier Energy Rural Electric Cooperative ("Hoosier")

To achieve compliance with the NO_X SIP Call, Hoosier plans to install SCR technology on both Merom units. Installation will occur over the 2001-2003 timeframe and the SCRs are scheduled for commercial operation in July 2003. Hoosier is currently estimating the cost at $73 million.

Indiana Michigan Power Co.

A compliance plan has not yet been filed by AEP, the parent company of I&M.

Proceedings on Utilities' Membership in Regional Transmission Organizations

Cause Nos. 42257 and 42266

On June 17, 2002, Southern Indiana Gas & Electric Company and PSI Energy, Inc. filed their Joint Petition requesting approval from the IURC of accounting treatment for the deferral of certain costs incurred by them as a result of taking transmission service under the Open Access Transmission Tariff ("OATT") of the Midwest ISO to serve their Indiana retail electric customers. This petition was docketed as Cause No. 42257.

On July 10, 2002, IPL filed its Petition requesting approval from the IURC of accounting treatment for the deferral of certain costs incurred by IPL as a result of taking transmission

service under the OATT of the Midwest ISO to serve its Indiana retail electric customers. This petition was docketed as Cause No. 42266.

By the Commission's Prehearing Conference Order of August 14, 2002, the two related cases were consolidated for purposes of hearing and order. On October 31, 2002, the three petitioners and the OUCC joined in the submission of a Stipulation and Settlement Agreement.

An evidentiary hearing in the consolidated proceeding was held on November 25, 2002. At the hearing the joint petitioners and the OUCC submitted testimony in support of the settlement agreement. The settlement agreement addressed the accounting treatment of the Midwest ISO Administrative Adder Costs. These are the costs incurred, or to be incurred, by a joint petitioner under Midwest ISO OATT Schedule 10 and 10-B, and any successor provisions, as a result of the petitioner taking transmission service under the Midwest ISO OATT to serve its Indiana retail electric customers. The agreement allowed each petitioner to defer these costs without accruing carrying costs. The deferral for each petitioner shall end on December 31, 2006, for subsequent recovery from Indiana retail electric customers in a future base retail rate case and the total deferred amount shall be recovered over a four-year amortization period. This four-year period was incorporated to reduce the potential rate impact upon Indiana retail electric customers.

Cause Nos. 42350, 42352, and 42349

On December 17, 2001, the IURC issued an Order in Cause No. 42032, in which it denied transfer of functional control of operation of transmission facilities located within Indiana by I&M and NIPSCO to the Alliance RTO. In rejecting the application, the Commission did not mean to suggest that staying outside an RTO was satisfactory. To make certain that such a transfer did occur, and occurred in a manner consistent with the public interest, the Commission opened investigations on December 19, 2002, into the status and progress of the transfer of functional control of transmission facilities by both I&M and NIPSCO, Cause Nos. 42350 and 42349, respectively.

On the same day, I&M filed a petition and case-in-chief requesting approval of transfer of functional control of their transmission assets to PJM. This Cause, No. 42352, was consolidated with Cause No. 42350 and a pre-hearing conference was held on January 6, 2003. PJM is the country's first fully functioning regional transmission organization and operates the transmission grid in all or parts of Delaware, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, West Virginia and the District of Columbia.

An evidentiary hearing in Cause Nos. 42350 and 42352 was held May 13, 2003, and all parties, including IURC testimonial staff, submitted testimony. The OUCC was the only party that objected to the transfer as more than one RTO within Indiana was sub-optimal, in the OUCC's

opinion. IURC Testimonial staff and the Industrial Group raised several concerns and therefore asked the Commission to only approve the petition with certain conditions. A final order was issued on September 10, 2003.

In Cause No. 42349, a Commission investigation, NIPSCO sought to join the Midwest ISO as a member of an independent transmission company ("ITC") managed by an affiliate of National Grid USA. The GridAmerica ITC is to be a for-profit ITC within the MISO and is to exercise functional control over the transmission facilities of the GridAmerica Companies. The GridAmerica Companies, in addition to NIPSCO, are Ameren Services Company, as agent for its electric utility affiliates Union Electric Company and Central Illinois Public Service Company and American Transmission Systems, Inc., a subsidiary of First Energy Corp. An evidentiary hearing was held on July 7, 2003, and a final order is pending.

New Utility Power Plants

PSI Energy – Cause No. 42145

On December 27, 2001, PSI and CinCap VII filed a joint petition with the IURC requesting the following:

- The issuance of certificates of public convenience and necessity for PSI to purchase generating facilities for the furnishing of electric utility service to the public;
- Approval of the costs for such facilities; and
- Approval for CinCap VII to transfer ownership of generating assets to PSI.

Specifically, PSI requested to purchase the 576 MW summer-rated Madison Generating Station located in Butler County, Ohio and the 129 MW summer-rated Henry County Generating Station located in Henry County, Indiana. Both generating stations were owned by CinCap VII, a wholly-owned subsidiary of Cinergy and affiliate of PSI.

On September 18, 2002, at the scheduled evidentiary hearing, PSI submitted a Settlement Agreement between PSI, CinCap VII, the OUCC and the Commission Staff. At that time, non-settling intervenors, PSI Industrial Group, Midwest Independent Power Suppliers and Nucor, requested a future hearing date be set so that they could review and respond to the proposed settlement. The Commission agreed and set a hearing date of October 21, 2002.

The IURC issued a final order in this Cause on December 19, 2002 approving the three main relief requests. In PSI's subsequent rate case-in-chief testimony (Cause No. 42359), it stated that the formal transfer of the assets took place on February 4, 2003, at a cost of approximately $350 million.

Indiana Municipal Power Agency – Cause No. 42455

On June 5, 2003, IMPA filed a petition for the issuance of a certificate of public convenience and necessity in order to construct or obtain ownership interests in up to 550 MW of electric generation capacity. IMPA is proposing to construct or obtain ownership interests in up to 400 MW of new or existing baseload capacity, and up to 150 MW of new or existing peaking or intermediate generating capacity. A preliminary hearing in this cause was held on July 15, 2003. Evidentiary hearings for this cause are scheduled to take place in November, 2003.

Southern Indiana Gas and Electric Company – Cause No. 42467

On June 18, 2003, SIGECO filed a petition for the issuance of a certificate of public convenience and necessity in order to construct an approximately 80 MW combustion turbine peaking generator. SIGECO states in its petition that it proposes a completion date for the combustion turbine of June, 2005. A preliminary hearing in this cause was held on August 4, 2003. Evidentiary hearings for this cause are scheduled to take place in February, 2004.

Indiana's Electric Industry – Statistics

This section is a review of the energy sales, revenue, average price and market share for Indiana's electric utilities. See Tables 2 through 6 for more information.

Investor-Owned Utilities

There are five investor-owned utilities operating in Indiana. These utilities are the most significant in terms of generation and in number of customers served. The five investor-owned utilities that operate within the state are:

- Indianapolis Power & Light, a wholly-owned subsidiary of AES Corporation;
- Indiana Michigan Power, wholly owned by American Electric Power;
- Northern Indiana Public Service Company, a NiSource company;
- PSI Energy, a wholly-owned subsidiary of Cinergy Corporation; and,
- Southern Indiana Gas & Electric Company, a subsidiary of Vectren Energy Delivery of Indiana.

Municipal Utilities

There are 79 municipally owned electric utilities in Indiana. As of July 2003, twenty-three remain under IURC jurisdiction for rate regulation. Many municipals in the state are members of the Indiana Municipal Power Agency. IMPA was created by a group of municipalities in 1980 to jointly finance and operate generation and transmission facilities and purchase power.

IMPA owns generating facilities and has member-dedicated generation. It also holds ownership interest in two units, Gibson Unit 5 (co-owned with PSI and Wabash Valley Power Association) and Trimble County Unit 1 (co-owned with Louisville Gas and Electric and the Illinois Municipal Electric Agency). It meets the rest of its members' needs through purchased power.

Cooperatives

There are forty-three electric distribution co-ops operating in Indiana. As of July 2003, four co-ops remain under Commission jurisdiction for rate regulation. Most of the distribution co-ops are members of either Hoosier Energy or Wabash Valley Power Association. These two organizations are generating and transmission cooperatives formed to supply power to distribution co-ops. Hoosier Energy and WVPA serve as coordinators of bulk power supplies and transmission services for their members.

Table 2: Sales, Revenues and Market Share for Electric Utilities - 2002 Summary

MWH

Utility	Residential	Commercial	Industrial	Other	Total
Investor Owned Utilities	23,996,056	19,130,822	38,541,377	368,957	82,037,212
Rural Electric Membership Corporations	1,049,599	606,478		4,426	1,660,503
Municipal Utilities	1,546,727	3,547,046		96,875	5,190,648
Totals	**26,592,382**	**23,284,346**	**38,541,377**	**470,258**	**88,888,363**

REVENUE (000s)

Utility	Residential	Commercial	Industrial	Other	Total
Investor Owned Utilities	$ 1,634,975	$ 1,155,358	$ 1,580,990	$ 42,569	$ 4,413,892
Rural Electric Membership Corporations	$ 73,987	$ 32,147		$ 1,644	$ 107,778
Municipal Utilities	$ 89,437	$ 163,776		$ 29,122	$ 282,335
Totals	**$ 1,798,399**	**$ 1,351,281**	**$ 1,580,990**	**$ 73,335**	**$ 4,804,005**

RETAIL MARKET SHARE BY MWH

Utility	Residential	Commercial	Industrial	Other	Total
Investor Owned Utilities	90.24%	82.16%	100.00%	78.46%	92.29%
Rural Electric Membership Corporations	3.95%	2.60%		0.94%	1.87%
Municipal Utilities	5.82%	15.23%		20.60%	5.84%

RETAIL MARKET SHARE BY REVENUES

Utility	Residential	Commercial	Industrial	Other	Total
Investor Owned Utilities	90.91%	85.50%	100.00%	58.05%	91.88%
Rural Electric Membership Corporations	4.11%	2.38%		2.24%	2.24%
Municipal Utilities	4.97%	12.12%		39.71%	5.88%

Please note that REMCs and municipal utilities do not present separate commercial and industrial information in the annual reports they submit to the Commission therefore the summarized commercial and industrial data is shown under the “Commercial” heading on the tables.

Table 3: Generation Capacity by Utility (MW) - 2002 Data

Utility	Summer Capacity
Indiana Michigan Power Company	3,583
Indianapolis Power & Light Company	3,243
Northern Indiana Public Service Company	3,392
PSI Energy, Inc.	7,160
Southern Indiana Gas & Electric Company	1,341
Hoosier Energy	1,018
Wabash Valley Power Association	156
Indiana Municipal Power Agency	523

Note: The main sources for these values are the responses to the 2003 IURC Annual Summer Capacity Surveys

Table 4: Investor-Owned Electric Utilities - 2002 Data

MWH

Utility	Residential	Commercial	Industrial	Other	Total
Indiana Michigan Power Company	5,777,972	4,895,581	8,197,669	85,310	18,956,532
Indianapolis Power & Light Company	4,938,673	2,018,031	7,417,297	72,436	14,446,437
Northern Indiana Public Service Company	3,228,343	3,618,327	8,822,406	123,336	15,792,412
PSI Energy, Inc.	8,483,853	7,131,102	11,587,670	69,759	27,272,384
Southern Indiana Gas & Electric Company	1,567,215	1,467,781	2,516,335	18,116	5,569,447
Totals	**23,996,056**	**19,130,822**	**38,541,377**	**368,957**	**82,037,212**

REVENUE (000s)

Utility	Residential	Commercial	Industrial	Other	Total
Indiana Michigan Power Company	$ 371,329	$ 279,749	$ 330,428	$ 6,543	$ 988,050
Indianapolis Power & Light Company	$ 292,855	$ 130,642	$ 335,436	$10,926	$ 769,859
Northern Indiana Public Service Company	$ 309,499	$ 297,225	$ 393,558	$13,805	$ 1,014,088
PSI Energy, Inc.	$ 552,964	$ 366,896	$ 430,575	$ 9,187	$ 1,359,622
Southern Indiana Gas & Electric Company	$ 108,327	$ 80,846	$ 90,993	$ 2,107	$ 282,273
Totals	**$ 1,634,975**	**$ 1,155,358**	**$ 1,580,990**	**$ 42,569**	**$ 4,413,892**

AVERAGE RATE PER KWH

Utility	Residential	Commercial	Industrial	Other	Total
Indiana Michigan Power Company	$0.06	$0.06	$0.04	$0.08	$0.05
Indianapolis Power & Light Company	$0.06	$0.06	$0.05	$0.15	$0.05
Northern Indiana Public Service Company	$0.10	$0.08	$0.04	$0.11	$0.06
PSI Energy, Inc.	$0.07	$0.05	$0.04	$0.13	$0.05
Southern Indiana Gas & Electric Company	$0.07	$0.06	$0.04	$0.12	$0.05

RETAIL MARKET SHARE

Utility	Residential	Commercial	Industrial	Other	Total
Indiana Michigan Power Company	37.58%	28.31%	33.44%	0.66%	100%
Indianapolis Power & Light Company	38.04%	16.97%	43.57%	1.42%	100%
Northern Indiana Public Service Company	30.52%	29.31%	38.81%	0.00%	100%
PSI Energy, Inc.	40.67%	26.99%	31.67%	0.68%	100%
Southern Indiana Gas & Electric Company	38.38%	28.64%	32.24%	0.75%	100%

Table 5: Rural Electric Membership Corporations - 2002 Data

MWH

Utility	Residential	Commercial & Industrial	Other	Total
Harrison County R.E.M.C.	313,920	183,650	1,992	499,563
Jackson County R.E.M.C.	374,868	72,483	76	447,427
Marshall County R.E.M.C.	70,035	17,118	1,396	88,549
Northeastern R.E.M.C.	290,775	333,226	962	624,964
Totals	**1,049,599**	**606,478**	**4,426**	**1,660,502**

REVENUE (000s)

Utility	Residential	Commercial & Industrial	Other	Total
Harrison County R.E.M.C.	$ 21,482	$ 9,196	$ 716	$ 31,395
Jackson County R.E.M.C.	$ 25,142	$ 4,180	NA	$ 29,878
Marshall County R.E.M.C.	$ 6,420	$ 1,406	$ 196	8,023
Northeastern R.E.M.C.	$ 20,944	$ 17,365	$ 175	38,484
Totals	**$ 73,987**	**$ 32,147**	**$ 1,644**	**$ 107,779**

AVERAGE REVENUE PER KWH

Utility	Residential	Commercial & Industrial	Other	Total
Harrison County R.E.M.C.	$ 0.07	$ 0.05	$ 0.36	$ 0.06
Jackson County R.E.M.C.	$ 0.07	$ 0.06	NA	$ 0.07
Marshall County R.E.M.C.	$ 0.09	$ 0.08	$ 0.14	$ 0.09
Northeastern R.E.M.C.	$ 0.07	$ 0.05	$ 0.18	$ 0.06

RETAIL MARKET SHARE

Utility	Residential	Commercial & Industrial	Other
Harrison County R.E.M.C.	68.43%	29.29%	2.28%
Jackson County R.E.M.C.	84.15%	13.99%	1.86%
Marshall County R.E.M.C.	80.02%	17.53%	2.45%
Northeastern R.E.M.C.	54.42%	45.12%	0.45%

Note: "NA", or Not Available, because the utility did not file this information with the Commission in their annual report filing.

Table 6: Municipal Electric Utilities - 2002 Data

MWH

Utility	Residential	Commercial & Industrial	Other	Total
Anderson Municipal Light & Power	337,726	394,876	4,615	737,216
Auburn Municipal Electric	59,391	468,912		528,302
Bargersville Municipal Power & Light	31,720	16,107	2,324	50,150
Boonville Municipal Light & Power	NA	NA	NA	-
Columbia City Municipal Electric	36,541	71,905	2,712	111,158
Crawfordsville Municipal Electric Light & Power	80,454	316,842	22,288	419,585
Edinburgh Municipal Electric	23,180	68,316	1,193	92,688
Frankfort City Light & Power	77,735	262,901	2,632	343,269
Garrett Municipal Electric	69,307			69,307
Kingsford Heights Municipal Electric	5,228			5,228
Knightstown Municipal Electric	13,694	8,952	740	23,386
Lawrenceburg Municipal Electric	28,232	90,537	1,568	120,336
Lebanon Municipal Electric	66,315	132,113	3,216	201,644
Logansport Municipal Electric	105,111	282,319	2,737	390,167
Mishawaka Municipal Electric	185,282	368,309	28,184	581,775
Paoli Municipal Electric	NA	NA	NA	
Peru Municipal Electric Light & Power	96,342	149,143	4,493	249,978
Richmond Municipal Power & Light	210,629	760,447	11,176	982,252
South Whitley Municipal Electric	19, 825			19,825
Straughn Municipal Electric	1,385			1,385
Tipton Municipal Electric	38,968	75,507	246	114,721
Troy Municipal Electric	9,304			9,304
Washington City Municipal Light & Power	70,184	79,862	8,751	158,796
Totals	**1,566,533**	**3,547,048**	**96,875**	**5,190,647**

Note: "NA", or Not Available, because the utility did not file this information with the Commission in their annual report filing.

REVENUE (000s)

Utility	Residential	Commercial & Industrial	Other	Total
Anderson Municipal Light & Power	$ 19,596	$ 18,723	$ 788	$ 39,107
Auburn Municipal Electric	$ 2,669	$ 21,087	$ 267	$ 24,022
Bargersville Municipal Power & Light	$ 1,881	$ 982	$ 232	$ 3,095
Boonville Municipal Light & Power	NA	NA	NA	$ -
Columbia City Municipal Electric	$ 2,165	$ 3,931	$ 284	$ 6,381
Crawfordsville Municipal Electric Light & Power	$ 5,259	$ 14,770	$ 2,199	$ 22,228
Edinburgh Municipal Electric	$ 1,234	$ 3,327	$ 75	$ 4,635
Frankfort City Light & Power	$ 4,239	$ 9,848	$ 461	$ 14,547
Garrett Municipal Electric	$ 3,717		$ 83	$ 3,800
Kingsford Heights Municipal Electric	$ 250	$ 102	$ 57	$ 409
Knightstown Municipal Electric	$ 774	$ 523	$ 29	$ 1,326
Lawrenceburg Municipal Electric	$ 1,463	$ 4,398	$ 140	$ 6,001
Lebanon Municipal Electric	$ 3,718	$ 6,011	$ 348	$ 10,078
Logansport Municipal Electric	$ 6,577	$ 13,987	$ 322	$ 20,886
Mishawaka Municipal Electric	$ 12,089	$ 20,639	$ 2,438	$ 35,166
Paoli Municipal Electric	NA	NA	NA	$ -
Peru Municipal Electric Light & Power	$ 5,840	$ 7,393	$ 369	$ 13,601
Richmond Municipal Power & Light	$ 11,747	$ 30,513	$ 20,205	$ 62,465
South Whitley Municipal Electric	$ 524	$ 615	$ 71	$ 1,211
Straughn Municipal Electric	$ 87	$ 4,982	$ 11,799	$ 104
Tipton Municipal Electric	$ 2,146	$ 3,590	$ 44	$ 5,779
Troy Municipal Electric	$ 257	$ 370	$ 24	$ 652
Washington City Municipal Light & Power	$ 3,730	$ 3,576	$ 746	$ 8,052
Totals	**$ 89,962**	**$ 169,367**	**$ 40,981**	**$ 283,545**

Note: "NA", or Not Available, because the utility did not file this information with the Commission in their annual report filing.

AVERAGE REVENUE PER KWH

Utility	Residential	Commercial & Industrial	Other	Total
Anderson Municipal Light & Power	$0.06	$0.05	$ 0.17	$ 0.05
Auburn Municipal Electric	$0.04	$0.04		$ 0.05
Bargersville Municipal Power & Light	0.06	0.06	$ 0.10	$ 0.06
Boonville Municipal Light & Power	NA	NA	$ NA	NA
Columbia City Municipal Electric	$0.06	$0.05	$ 0.10	$ 0.06
Crawfordsville Municipal Electric Light & Power	$0.07	$0.05	$ 0.10	$ 0.05
Edinburgh Municipal Electric	$0.05	$0.05	$ 0.06	$ 0.05
Frankfort City Light & Power	$0.05	$0.04	$ 0.18	$ 0.04
Garrett Municipal Electric	$0.05			$ 0.05
Kingsford Heights Municipal Electric	$0.05			$ 0.08
Knightstown Municipal Electric	$0.06	$0.06	$ 0.04	$ 0.06
Lawrenceburg Municipal Electric	$0.05	$0.05	$ 0.09	$ 0.05
Lebanon Municipal Electric	$0.06	$0.05	$ 0.11	$ 0.05
Logansport Municipal Electric	$0.06	$0.05	$ 0.12	$ 0.05
Mishawaka Municipal Electric	$0.07	$0.06	0.09	$ 0.06
Paoli Municipal Electric	NA	NA	NA	NA
Peru Municipal Electric Light & Power	NA	NA	NA	NA
Richmond Municipal Power & Light	$0.06	$0.04	$ 1.81	$ 0.06
South Whitley Municipal Electric	$0.03			$ 0.03
Straughn Municipal Electric	$0.06			$ 0.08
Tipton Municipal Electric	$0.06	$0.05	$ 0.18	$ 0.05
Troy Municipal Electric	$0.03			0.07
Washington City Municipal Light & Power	$0.05	$0.04	$ 0.09	$ 0.05

Note: "NA", or Not Available, because the utility did not file this information with the Commission in their annual report filing.

RETAIL MARKET SHARE

Utility	Residential	Commercial & Industrial	Other
Anderson Municipal Light & Power	50.11%	47.88%	2.01%
Auburn Municipal Electric	11.11%	87.78%	1.11%
Bargersville Municipal Power & Light	60.78%	31.74%	7.48
Boonville Municipal Light & Power	NA	NA	NA
Columbia City Municipal Electric	33.93%	61.61%	4.45%
Crawfordsville Municipal Electric Light & Power	23.66%	66.45%	9.89%
Edinburgh Municipal Electric	26.61%	71.78%	1.61%
Frankfort City Light & Power	29.14%	67.70%	3.17%
Garrett Municipal Electric	97.81%	0	2.19%
Kingsford Heights Municipal Electric	61.11%	25.00%	13.89%
Knightstown Municipal Electric	58.34%	39.46%	2.21%
Lawrenceburg Municipal Electric	24.38%	73.29%	2.33%
Lebanon Municipal Electric	36.89%	59.65%	3.46%
Logansport Municipal Electric	31.49%	66.97%	1.54%
Mishawaka Municipal Electric	34.38%	58.69%	6.93%
Paoli Municipal Electric	NA	NA	NA
Peru Municipal Electric Light & Power	NA	NA	NA
Richmond Municipal Power & Light	18.81%	48.85%	32.35%
South Whitley Municipal Electric	NA	NA	NA
Straughn Municipal Electric	83.85%		
Tipton Municipal Electric	37.13%	62.12%	0.75%
Troy Municipal Electric	39.47%	56.78%	3.74%
Washington City Municipal Light & Power	46.33%	44.41%	9.27%

Table 7: Average Revenue per kWh by State (ranked from highest to lowest)

STATE	2000 Residential	2000 Average	2001 Residential	2001 Average	2002 (EST) Residential	2002 (EST) Average
Hawaii	16.37	14.04	16.0	13.7	15.3	13.1
California	10.58	8.50	12.2	11.4	12.2	11.8
Vermont	12.00	10.14	12.5	10.8	12.8	10.9
New York	14.06	11.15	13.9	10.9	13.5	10.9
New Hampshire	13.58	11.60	12.5	11.0	11.7	10.5
Alaska	11.44	9.98	12.1	10.5	12.1	10.4
Massachusetts	10.84	9.48	12.3	10.9	10.9	10.0
Connecticut	10.87	9.53	10.9	9.6	11.0	9.7
New Jersey	10.75	9.03	10.3	9.4	10.4	9.4
Rhode Island	11.56	10.19	12.1	10.9	10.2	9.2
Maine	12.81	9.88	12.9	10.1	12.5	9.2
Nevada	7.37	6.10	9.0	7.8	9.4	8.4
Pennsylvania	9.10	6.57	9.5	7.8	9.6	8.0
Illinois	8.84	6.57	8.7	6.8	8.4	7.4
District of Columbia	7.88	7.44	7.9	7.2	8.4	7.3
Florida	7.77	6.91	8.6	7.7	8.2	7.3
Arizona	8.29	7.09	8.3	7.2	8.3	7.1
Michigan	8.50	7.11	8.4	7.1	8.5	7.0
Delaware	9.16	6.81	8.6	6.6	8.6	6.8
Texas	7.78	6.40	8.8	7.40	8.1	6.8
New Mexico	8.33	6.58	8.7	7.0	8.6	6.7
North Carolina	8.03	6.49	8.1	6.7	8.2	6.7
Ohio	8.61	6.51	8.3	6.7	8.1	6.6
Oregon	5.96	4.78	6.5	5.7	7.4	6.6
Maryland	8.00	6.73	7.7	6.5	7.7	6.5
South Dakota	7.39	6.31	7.5	6.4	7.5	6.4
Georgia	7.61	6.17	7.9	6.5	7.7	6.3
Kansas	7.55	6.21	7.7	6.3	7.6	6.3
Mississippi	7.02	5.91	7.4	6.3	7.3	6.3
Virginia	7.61	5.95	7.7	6.1	7.7	6.2
Wisconsin	7.56	5.69	7.9	6.1	8.1	6.2
Iowa	8.08	5.82	8.4	6.1	8.3	6.1
Missouri	6.96	5.95	7.0	6.1	7.1	6.1
Louisiana	7.78	6.55	7.9	6.9	7.3	6.1
Colorado	7.37	5.98	7.5	6.0	7.3	6.0
Minnesota	7.39	5.79	7.6	6.0	7.5	5.9
Montana	6.33	5.09	6.8	6.1	7.2	5.9
South Carolina	7.43	5.46	7.7	5.8	7.8	5.9

Continued…

STATE	2000 Residential	2000 Average	2001 Residential	2001 Average	2002 (EST) Residential	2002 (EST) Average
Arkansas	7.45	5.73	7.7	6.0	7.3	5.8
Alabama	6.99	5.57	7.1	5.6	7.1	5.7
Tennessee	6.36	5.61	6.4	5.7	6.4	5.7
Oklahoma	7.00	5.83	7.2	6.0	6.7	5.6
North Dakota	6.64	5.52	6.5	5.5	6.5	5.6
Nebraska	6.40	5.21	6.5	5.3	6.7	5.5
Indiana	**6.87**	**5.14**	**6.9**	**5.3**	**6.9**	**5.3**
Utah	6.27	4.81	6.7	5.2	6.7	5.3
West Virginia	6.36	5.11	6.2	5.1	6.2	5.1
Wyoming	6.65	4.38	6.6	4.4	6.9	4.7
Kentucky	5.36	4.13	5.5	4.2	5.6	4.3
U.S. Average	**8.38**	**6.67**	**8.57**	**7.26**	**8.43**	**7.21**

Sources: Energy Information Administration: EIA-861, "Annual Electric Utility Report," and EIA-826, "Monthly Electric Utility Sales and Revenue Report with State Distributions."

Glossary

Affiliate: A company, partnership or other entity with a corporate structure that includes a utility engaging in or arranging for an unregulated retail sale of gas or electric energy or related services.

Capacity: The size of a plant (not its output). Electric utilities measure size in kilowatts or megawatts and gas utilities measure size in cubic feet of delivery capability.

Cooperative: A business entity similar to a corporation, except that ownership is vested in members rather than stockholders and benefits are in the form of products or services rather than profits.

Distribution: The component of a gas or electric system that delivers gas or electricity from the transmission component of the system to the end-user. Usually the energy has been altered from a high pressure or voltage level at the transmission level to a level that is usable by the consumer. Distribution is also used to describe the facilities used in this process.

Generation: The process of producing electricity. Also refers to the assets used to produce electricity for transmission and distribution.

Holding Company: A corporate structure where one company holds the stock (ownership) of one or more other companies but does not directly engage in the operation of any of its business.

Independent System Operator (ISO): An independent organization or institution that controls the transmission system in a particular region. The ISO would have no corporate relationship with the transmission-owning utilities, and therefore would be able to assure fair and comparable access to the transmission system for all users.

Kilowatt (kW): A basic unit of measurement; 1 kW = 1,000 watts.

Kilowatt-Hour (kWh): One kilowatt of power supplied to or taken from an electric circuit steadily for one hour.

Megawatt (MW): One thousand kilowatts or one million watts.

Megawatt-Hour (MWh): One megawatt of power supplied to or taken from an electric circuit steadily for one hour.

Midwest Market Initiative (MMI): In December 2002, the Midwest ISO announced the Midwest Market Initiative ("MMI"). The MMI refers to the preparation and implementation of the Midwest ISO wholesale energy market in the Midwest with a target launch date of December 2003. The MMI involves the formation of real time and day ahead markets for trading electricity based on hourly locational marginal pricing.

Municipal Utility: A utility that is owned and operated by a municipal government. These utilities are organized as nonprofit local government agencies and pay no taxes or dividends; they raise capital through the issuance of tax-free bonds.

Organization of Midwest ISO States ("OMS"): A group of state utility commissions in the MISO footprint that initiated the formation of the country's first so-called regional state committee. The OMS will act as an adviser on some MISO functions and attempt to plan transmission investments on a regional, rather than state-specific basis.

Reliability: A term used in both the electric and gas industry to describe the utility's ability to provide uninterrupted service of gas or electricity. Reliability of service can be compromised at any level of service: generation or production, transmission or distribution.

Service Territory: Under the current regulatory environment, an electric utility is granted a franchise to provide energy to a specified geographical territory, designated as a service territory.

Transmission: The process of transferring energy (either gas or electricity) from the production or generation source to the point of distribution. Also refers to the facilities used for this process.

List of Acronyms

AEP	American Electric Power
APCO	Appalachian Power Company, subsidiary of AEP
BTU	British Thermal Unit
CAC	Citizens Action Coalition
CSPCO	Columbus and Southern Power Company, subsidiary of AEP
CT	Combustion Turbine
EPA	Environmental Protection Agency
FAC	Fuel Adjustment Cost Charge
FERC	Federal Energy Regulatory Commission
ITC	Independent Transmission Company
IDEM	Indiana Department of Environmental Management
IIG	Indiana Industrial Group
I&M	Indiana Michigan Power Company, subsidiary of AEP
IMPA	Indiana Municipal Power Agency
IOU	Investor-owned Utility
IPL	Indianapolis Power and Light
ISO	Independent System Operator
ITC	Independent Transmission Company
IURC	Indiana Utility Regulatory Commission
JTS	Joint Transmission System
KPCO	Kentucky Power Company, subsidiary of AEP
LMP	Locational Marginal Pricing
MMI	Midwest Market Initiative
MW	Megawatt
MWH	Megawatt Hour
MISO	Midwest Independent System Operator
NO_x	Nitrogen Oxides
NIPSCO	Northern Indiana Public Service Company
NOPR	Notice of Proposed Rulemaking
OMS	Organization of Midwest ISO States
OUCC	Office of Utility Consumer Counselor
OPCO	Ohio Power Company, subsidiary of AEP
PSI	PSI Energy
REMC	Rural Electric Membership Cooperative
RTO	Regional Transmission Organization
SCR	Selective Catalytic Reduction
SNCR	Selective Non-Catalytic Reduction
SIGECO	Southern Indiana Gas & Electric Company
SMD	Standard Market Design
SO_2	Sulfur Dioxide
WVPA	Wabash Valley Power Association